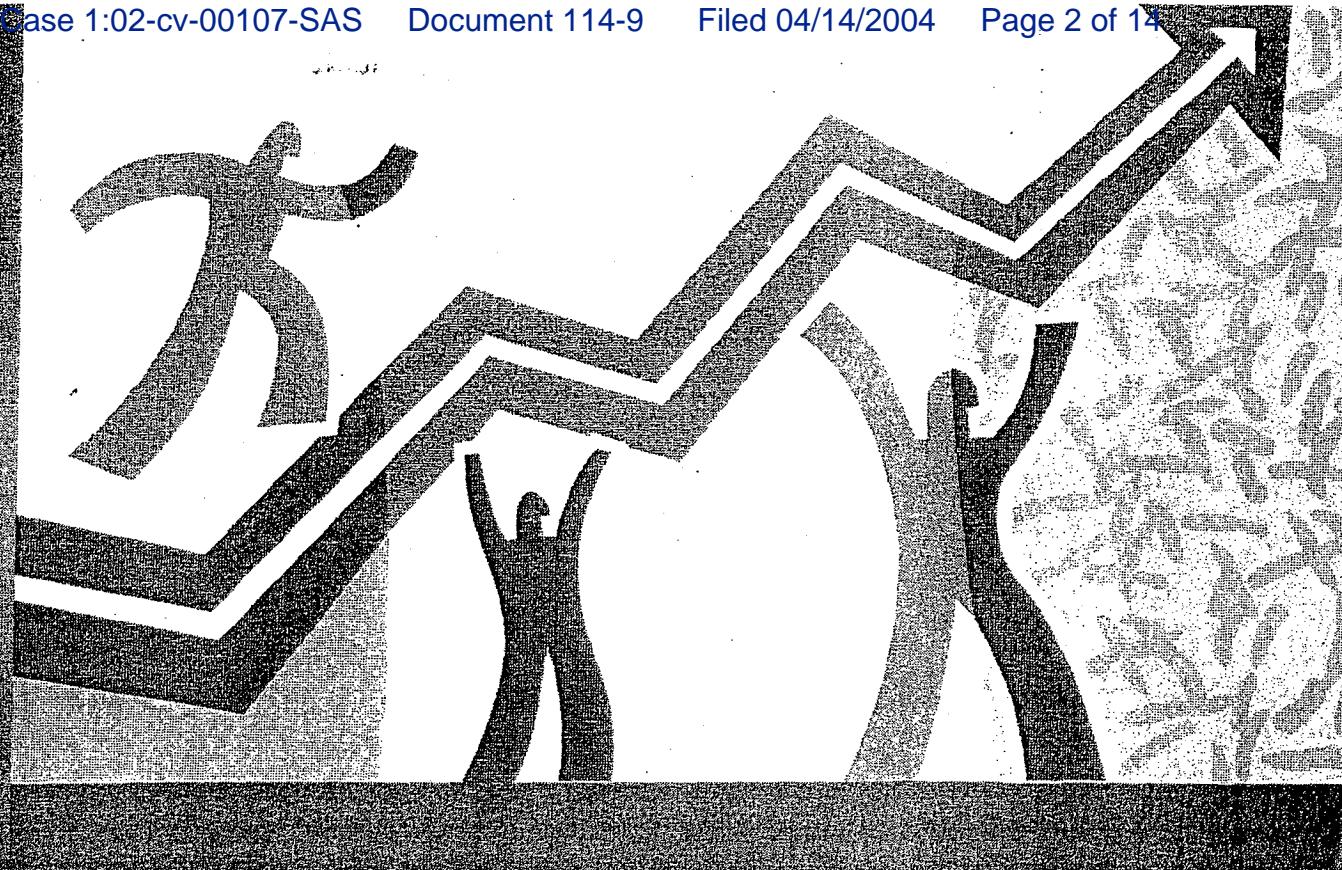


EXHIBIT 1-ATTACHMENT D

**SIERRA CLUB COMMENTS ON
CONSENT DECREES, ATT. D:**

**PROCESS IMPROVEMENT STUDY
OPTIMIZATION REPORT OF THE
METROPOLITAN SEWER DISTRICT OF
GREATER CINCINNATI**



Process Improvement Study Optimization Report

Process Improvement Study Optimization Report of the Metropolitan Sewer District of Greater Cincinnati

June 24, 2003



**BROWN AND
CALDWELL**

TABLE OF CONTENTS

Section 1	4
Section 2	4
Section 3	5
Section 4	8
Section 5	27
Appendices	29

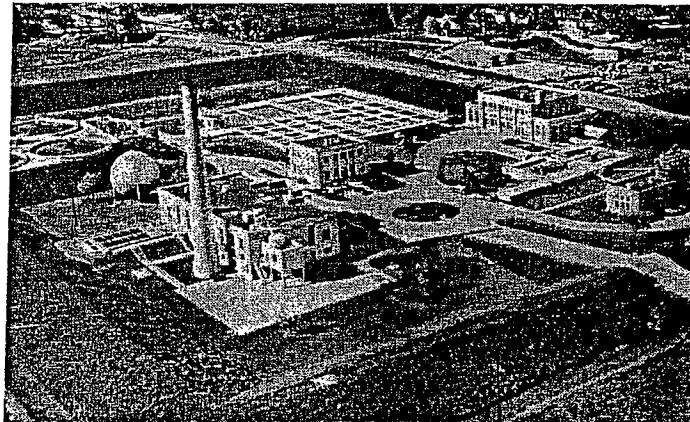
This page left intentionally blank

Optimization Report

*Strategy for Optimizing MSD Operations prepared for
the Metropolitan Sewer District of Greater Cincinnati by
Brown and Caldwell.*

1. Background

In 1999, the Metropolitan Sewer District of Greater Cincinnati (MSD) conducted a survey of stakeholders, customers and employees, for the purpose of developing a comprehensive Strategic Plan¹. MSD leadership learned much from this effort, but the most important feedback centered around three areas: improving internal and external customer service and communications; breaking down barriers between divisions; and concentrating on process improvement, department-wide.



Little Miami Wastewater Treatment Plant

In the last six months, Brown and Caldwell has learned that the issues are still the same. Interdivisional conflict and misunderstanding continue to hamper the utility's ability to operate as efficiently as it could; major processes still need fine-tuning and streamlining; and MSD has not yet embraced a truly customer-driven business strategy. The Optimization Plan presented herein will seek to address these obstacles and others, first from the standpoint of what actions will be essential for MSD to take in the near future, to stave off the threat of managed competition; and second, from the perspective of longer term competitive performance targets and opportunities for improvement.

As has been noted already in the Assessment, this Plan could not be more timely. Confidence in MSD's ability to provide a quality service at the lowest possible cost is being questioned by both the City of Cincinnati and the Hamilton County Board of Commissioners. MSD employees are also concerned about whether MSD can respond effectively to the threat of contract operations. Therefore, it is critical that MSD not hesitate to compare its current performance with that of utilities who have staved off contract operations or fought the managed competition war, and won, and do what it has to do to be similarly successful.

2. Executive Summary

The Optimization Plan for the Metropolitan Sewer District of Greater Cincinnati is divided into multiple sections, beginning with the Organizational Overview, and followed by sections on each of

¹ See the Appendix A at the end of this report for the Internal Customer Service Survey; this survey was conducted prior to the Optimization Plan, and under a separate contract between MSD and Barbara Hoyt, of Falcon Dynamics, Cincinnati, OH. Ms. Hoyt has provided input to Brown and Caldwell during the development of this Optimization Plan, based on her five years of experience with management and employees at MSD.

the District's Divisions. While the Overview focuses on issues common to the whole utility, the sections on each Division pinpoint strengths, opportunities for improvement and major recommendations for making those improvements specific to that Division. This format should make it easy for the reader to differentiate between issues common to MSD as a whole, and those that are particular to its major process areas.

Without transformation in the way leadership understands its role in change, the efforts of individuals will not be enough to make MSD viable in the long haul.

Each section also outlines the challenges MSD leadership will face, as it starts down the path of improvement. The successful implementation of the Optimization Plan lives or dies with leadership's ability to resist the temptation to act on what looks easy and let the rest fall by the wayside. Only a holistic, systemic approach to addressing the issues that keep MSD from offering low cost, high quality services to its customers will bring about real and enduring changes in the way the utility does its business. Results of a survey internal customer service, conducted in October 2002, were considered in formulating this analysis.

This is not to say that a shift in the way employees see the relationship between their work product and the needs of their internal and external customers will not go a long way toward establishing best practices at MSD. But without an accompanying transformation in the way leadership understands its role in bringing that shift about, the efforts of individuals will not be enough to make MSD viable in the long haul.

For this reason, we are not cushioning what follows with the kind of verbiage that will be necessary for any documentation to be reviewed by the public. Instead, we are presenting for consideration a barebones outline that shows as clearly as possible where MSD is competitive and where it is not, along with the hard facts about what must change for MSD to survive.

3. Organizational Overview

3.1. Employee / Management Issues

Summary of Strengths

- A strong work ethic among the majority of employees at MSD and a genuine interest in improving work practices and operating efficiencies.
- Most employees are proud to work at MSD.

Areas for Improvement

- A burgeoning bureaucracy and an overwhelming number of policies in place to handle the minority of employees, policies made more demoralizing by actions from the City, such as discontinuing overtime.
- Inconsistent direction from managers and supervisors due to the complexity and apparent arbitrariness of these policies and procedures, as well as a lack of understanding on the part of many supervisors as to how handle personnel problems.
- A lack of accountability at all levels of management, characterized by: an inconsistent focus across divisions on developing goals, objectives and performance measures, or prioritizing those objectives; and a lack of consistent and persistent follow-through by senior management on more broad-based strategic and tactical plans for the business.
- The Labor / Management relationship needs to address more than just the bargaining agreements. Overtime, skill based pay, reduction of off-shift staffing, cross-functional

training, are some of the issues that Union Leadership must be willing to discuss with Management so that mutually beneficial improvements can occur.

3.2 Division Issues

Summary of Strengths

By division, MSD is a leader in these areas:

- Custom off-road maintenance equipment, data management, and dedicated Preventative Maintenance crews, as well as the optimization of outsourcing in Collection.
- The Division of Industrial Waste's Pretreatment Program recognized as a 'Model' program by Ohio EPA.
- Receipt of the AMSA Peak Performance Awards by a number of Treatment plants, demonstrating a commitment to the core business of treating wastewater and meeting effluent requirements.
- The benchmarking of the CAGIS system by other cities and utilities, and the implementation of the Storage Area Network (SAN) to save money, improve system uptime and provide greater data integrity.
- The Stormwater Management Utility's cost centers and unit price structure for maintenance activities, as well as the amount of work it has contracted out since 1985.

Areas for Improvement

- There is a need for greater access to technical data and equipment, and training in the use of the CAGIS system. The information in CAGIS is not entirely accurate and does not represent all current, available data. The same can be said about MAXIMO. Support for other software applications and equipment has also been significantly restricted.
- Most Divisions lack operating data, performance measures and the ability to track and monitor progress against performance targets. This makes it nearly impossible for MSD to understand its costs, which is crucial to becoming efficient and providing quality service at the lowest price.

3.3 Inter-Divisional Issues

Summary of Strengths

- Divisions work well together when there is a crisis in the community or a major problem to be solved. Relationships that have been developed over the years between individuals with different types of experience, and from different divisions, make it easier for MSD to respond quickly and effectively under difficult circumstances.

Areas for Improvement

- There is little understanding in one division of the work done in other divisions, and there is, as a general rule, poor communication between divisions. This leads to animosity and finger pointing, rather than teamwork and problem solving.
- Furthermore, lack of trust among divisions, as well as the lack of response from divisions, one to another, has caused each division to duplicate within its own operation, services such as HR and engineering, that should be provided by other divisions. This redundancy cannot continue, if MSD is to get and remain competitive.

Little strategic alignment throughout the organization.

- Consequently, divisions do not look for suggestions for improvements from their internal customers. Poor internal customer service bleeds outward to the external customer, which has resulted in a loss of credibility with policy makers and the community in some areas.
- Like highly successful private and public organizations, MSD needs to have an unrelenting focus on the core business operations; MSD's support divisions must have their resources in alignment with the effective collection and treatment of wastewater.

3.4.Strategic Issues

Summary of Strengths

- MSD has put considerable time and effort into the development of a Strategic Plan that sets focus and direction for the organization.

Areas for Improvement

- There is little strategic alignment throughout the organization with the goals and objectives of the Plan, or any concerted effort on the part of senior management to implement or track progress against the plan.
- For this reason, many employees are not confident that MSD is actually following a vision or strategic mission. What they see instead is a reactive approach to the daily work that, while necessary to some extent due to the nature of the business, has eroded trust in senior management's decision-making.
- MSD lacks a clear vision for training and a comprehensive methodology for delivering training programs. The curriculum needs to be beefed up to include more job-related skills, as well as to demonstrate a return on the investment MSD makes to send its employees to class.
- MSD also lacks a deliberate approach to succession planning, on the motivation and retention of existing staff. Attrition must be proactively managed, so that those who will be leaving are identified, and their replacements selected and trained, well in advance of the departure of any employee.

3.5.City / County Issues

There are significant outside constraints on MSD's ability to improve and streamline its processes including:

- MSD is subject to multiple bureaucracies that add both unnecessary complexity and redundancy to the work the Department must accomplish, and affect MSD at all levels. Persistent struggles with City departments on human resource issues, and in procurement and right-of-way (ROW), to name just a few examples, hamstring managers, reduce efficiencies and negatively impact morale.
- On the other hand, MSD employees are not always fully aware of what the City has to offer, or of how to effectively utilize City services. It will be imperative that MSD and the City find a way to work together to modify relevant City policies, so that MSD receives a higher level of service for the payments made.
- MSD must also confront the BOCC and the commissioner whose agenda keeps MSD off balance and uncertain of its future. The longer that agenda is in play, the less likely it is that MSD can focus on what it needs to do to become a first class utility in reality, and in the minds of its customers.

3.6.Closing Remarks

Strong leadership from both Labor and Management will be essential to the survival of MSD as a public utility. Right now, there is a real opportunity for the Metropolitan Sewer District of Greater Cincinnati to overcome the difficulties that face it and realize the potential of its workforce. But if both sides waffle, or pick only what's easiest to do from this Optimization Plan and leave the rest to collect dust on the shelf, then eventually, MSD's option to determine its own fate will be taken away.

Persistent struggles with City departments on human resource issues, and in procurement and right-of-way (ROW), to name just a few examples, hamstring managers, reduce efficiencies and negatively impact morale.

4. Executive Summaries by Division

4.1.Office of the Director

The office of the Director's (OOD) primary activities are to represent MSD's interests to stakeholder organizations and to set policy within the utility. Including the Comptroller (which is a County position), eight employees are immediate reports to the Director. Altogether, the division is composed of a staff of 25 people, with 35 approved positions, and is strongly linked to the Division of Wastewater Administration (WWA), which itself includes 26 people, with 29 approved positions. Together, the OOD and the WWA add up to 15 percent of the MSD O&M costs.

The OOD serves MSD well in navigating the complex relationship between the City and the County. However, there is a crisis in leadership at MSD.

Some OOD core services are identified as:

- Advisors to USEPA, OEPA, AMSA and FEMA on wet weather and water quality issues
- Project oversight on SSO, CSO, contractor, community, developer and other technical concerns
- Homeland Security
- Information Technology (discussed in a separate summary)
- Capital and non-capital improvement issues
- Cooperation with local environmental and special interest groups
- Leadership and policy-setting for the utility

50% of employees who took the survey do not feel top management sets a good example.

Summary of Strengths

- The OOD serves MSD well in navigating the complex relationship between the City and the County.
- It has maintained a better than functional status with the two organizations, and has been able to secure from them adequate annual budgets, staffing, backing for improvement projects and support in policy difficulties.
- It has also rendered service equally well in terms of risk management and has mitigated disruption from shifting national and state policy by engagement and influence with EPA, AMSA and other organizations.

Areas of Improvement

- Performance of the activities listed above is not communicated organization-wide and therefore, remains largely invisible to most MSD employees.
- In addition, the need to build and maintain useful relationships with important State and Federal organizations keeps the Director out of his office enough that the rank and file, and even some of his direct reports, question his commitment to his tenure at MSD.
- When he is on site, one fifth of the Director's time is spent administering to his immediate staff, which, again, limits his visibility to the organization at large.
- Increases in managerial personnel housed in the OOD over the past three years are perceived as flying in the face of the City mandate to reduce staff, and many employees have the impression that the rules don't apply for the OOD.

- This assessment has been validated by the internal customer service survey that was conducted in October of 2002 by an outside consultant at the request of the Director, and responded to by 86% of the MSD workforce. The survey showed the following:
 - 55% of employees who took the survey do not feel that there is a real sense of trust and respect among employees
 - 52% of employees who took the survey do not feel there is good communication across the organization
 - 65% of employees who took the survey do not feel that employees receive fair and equal treatment, regardless of their position in the company
 - 50% of employees who took the survey do not feel top management sets a good example
 - 50% of employees who took the survey do not feel top management sets a climate that encourages high performance
 - 40% of employees who took the survey doubt the truth of information received from top management
 - 52% of employees who took the survey do not feel that the promotion system is fair and 70% do not feel that the best people are promoted
 - 55% of employees who took the survey do not feel that policies are consistently applied

At the same time, 63% of employees who took the survey are proud to work for MSD. However, while there is the recognition that each division has room for improvement in, for example, the setting of clear goals and the prioritization of those goals, employees also feel that their divisions function better than does the organization as a whole.

Leadership Issues

The Director needs to limit the number of staff who directly reports to him, so that he can increase his visibility internally and communicate with employees across the organization about how what he does is designed to achieve the Vision and Mission laid out in the Strategic Plan. The following changes to the organization chart are suggested:

- That only the Deputy Director, the Director's Administrative Specialist, the Comptroller, and the Sewers Chief Engineer for Special Projects continue to report to the Office of the Director.
- That Wastewater Administration report to the Deputy Director.

- That Information Technology and the Supervising Management Analyst report to Wastewater Administration, or what might be better called 'Business Support Services'.
- That USEPA Response be relocated to Wastewater Engineering.
- The Manager of Homeland Security report to Wastewater Administration or what might be better called 'Business Support Services'.

The Director must act quickly to send the signal that his first concern is the future of MSD. He can only do this by freeing himself up from personnel issues, and dedicating himself to convincing local elected officials, and the citizens they represent, that this public utility can and should be able to outperform the private sector. To this end, we recommend that the Director:

- Select and track three to five macro-level performance measures that will demonstrate to employees and the community at large that MSD is improving customer service and the way it does business.
- Develop and deliver a series of ongoing communications, designed to cultivate widespread employee commitment to MSD's improvement goals, and to promote the core values of responsiveness, innovation, personal accountability and respect for one another.
- Meet on a monthly basis with the superintendents and the Deputy Director to anticipate, and devise solutions for, problems that will arise from the changes recommended in the Optimization Plan, and to resolve the interdivisional conflicts that will impede implantation of the Plan.
- Forge a solid partnership with the Unions.
- Lead the organization in aggressively pursuing improved technical support for those internal business services, such as administration and engineering that provide critical services to Collection and Treatment.
- Put each investment decision of any kind (including adding staff) to a simple litmus test - if one or more of the following three questions are not answered in the affirmative, the program or expenditure is not pursued:
 - Does it save cost?
 - Does it avoid cost?
 - Does it enhance core service delivery?
- Actively work to modify City policies and procedures that inhibit MSD's ability to provide good customer service in a timely fashion;
- Consolidate Administration, Engineering and DIW into one division, to be called Business Support Services, whose mission it will be to provide all that is required for the two core divisions, Treatment and Collection to run effectively and efficiently. SMU should remain a separate utility.

Conclusions

There is a crisis in leadership at MSD. The City and County still do not appear to be convinced that MSD can function cost-effectively in its present state. Employees, with little idea of what it means to be accountable for job performance and output, are placing blame where's it's easiest to find fault – at the top. For these reasons, it is imperative that the focus of the activities of the Office of the Director be solely and very visibly on the local macro-economic, political, technical and financial issues that

face it. Any function that does not clearly contribute to these four arenas should be housed elsewhere, to give the Director the time he needs to fight for the future of MSD.

4.2.Wastewater Administration

Four sections comprise the Division of Wastewater Administration (WWA): Human Resources, Accounting, Safety and the MSD Training Institute. Stores and the Print shop also report to the Superintendent, whose staff totals 26 people (29 approved positions) and whose budget of \$6,907,210 represents 8 percent of the total MSD O&M costs.

WWA lags behind in applying modern technical solutions in revenue collecting, bill paying, budget tracking, and time keeping.

Major WWA core services, which support MSD core services, are to:

- Keep and maintain HR Records
- Assist in the maintenance of Labor-Management relations
- Provide HR related assistance to employees
- Coordinate HR functions with City Hall and Civil Service
- Coordinate annual health care enrollment and assistance to employees
- Assist the Director with 3rd step grievance hearings, workplace violence reports and recommendations
- Provide registration for in-service courses, and study and report training opportunities for Affirmative Action and EEO goals, as well as hand EEO complaints and other litigation
- Coordinate the preparation of the annual operating and capital budgets for MSD
- Process vendor invoice, maintain MSD's general ledger and other financial records, and manage billing for seven municipalities
- Staff and manage stores
- Conduct safety training, monitor for OSHA compliance and investigate, collect and report out all injury-related data
- Develop and train employees
- Provide copy and printing needs to MSD and other City departments

Summary of Strengths

- Essential to the success of the utility, WWA tasks are characterized by compliance with regulatory obligations, and strong links with a variety of City Hall Departments and employee-focused programs.
- WWA solves complex problems associated with nearly every aspect of the business, and hosts systems that bridge the gap between MSD employees and the network of employee benefits offered by the City.

- With an admitted margin of error, WWA provides quality services in weekly payroll, benefits, budget information, vendor management, bill payment, revenue collection and training coordination. Safety service levels are especially high.
- WWA staff are team-oriented, professional, experienced and eager for the challenge of a significant role in this process improvement project.

| There is no cohesive strategy for counseling and developing employees, and no measurable return on the investment MSD makes.

Areas of Improvement

Human Resources and Accounting

- WWA lags behind in applying modern technical solutions in revenue collecting, bill paying, budget tracking, and time keeping, as well as in providing direct access to MSD employees to their health plans and medical benefits.
- Paper is used where it is not needed and where an overarching technical application would provide a streamlined alternative to routine processing now done by both accountants and accounting technicians.
- Presently, when City software is used, its access is restricted, making individual user-entry data the exception, rather than the rule.
- Unclear policies and procedures compound the problem and aberration from the rules by individual divisions only serves to further bog down the system.

To begin to address these issues in the short-term, we recommend that the Superintendent dedicate her efforts to helping her staff:

- Formalize the 'network' that helps WWA deliver day-to-day employee services. First, identify people in other divisions who provide administrative support to the core services. Give these people training, management, performance measures and evaluation against the administrative performance measures to support their respective roles. Track their costs as part of administrative services. Use this and existing practices to seek immediate gains in cost-efficiency, better business support services and to shape the vision of the future Business Support Services Division.
- Consolidate data and standardize services by aggressively seeking technological solutions to the problems of revenue collecting, bill paying, budget tracking, payroll and time keeping, and providing training. Use this knowledge to improve service delivery from the City to MSD.
- Shape employee services to be managed at the user-level and begin now to train MSD employees to effectively use employee services.
- Construct a performance measures system that rewards continuous improvement.
- Promote to every level of the organization the responsibility to place cost decisions to the following litmus test: if one of the following three questions are not answered in the affirmative, the option is not pursued:
 - Does it save cost?
 - Does it avoid cost?

- Does it enhance core service delivery?
- Leverage City services by referring to the appropriate City department time consuming cases and hand back to the City those tasks that should be administered from a centralized function;
- Empower the Human Resources Committee to develop a strategic and tactical plan to address HR, training and related administrative issues organization-wide;
- Task HR with proactively planning for the movement of employees from division to division through the drafting and implementation of special arrangements with the City that allow MSD the flexibility it will have to have to properly staff its core functions.
- Work with Unions to review job classifications, seeking to reduce the number of different classifications and provide within each classification a broad number of skills

Training

Strengths

- Despite the amount of required, non-job-related training, employees get most of what they need to do their work.
- Treatment has set up a job aids program that supports on the job training and has offered it MSD-wide.

Areas for Improvement

- Training, essential to getting and remaining competitive, is not up to snuff at MSD. The Internal Customer Service Survey shows that almost 80% of the employee population perceive the need for cross training, and 42% feel that they are not assured of getting enough training to do their jobs adequately.
- Therefore, while the original idea behind creating a separate Training Institute has validity in concept, it is not working out in reality. There is still no cohesive strategy for counseling and developing employees, and no measurable return on the investment MSD makes in sending its employees to class. In fact, productivity is actually decreased due to the number of employees who attend training sessions on City time. This may unavoidable in some cases, but a long-term training plan for each employee would give managers the opportunity to offset the lost time.
- So, while the Institute was also to have created and expanded relationships with local universities to provide long-term education for MSD employees, as well as to centralize and organize training available throughout MSD along specific career paths, the Director of the Institute has not been proactive in making this happen, largely because training is not his area of expertise. For this reason, we would suggest the following:
- Move the Institute under the direction of Human Resources and concentrate the present Institute Director's activities on his strengths which include: monitoring EEO compliance, acting as MSD's Employee Advocate, leading the Diversity Management initiative, and general counseling of employees in these areas;
- Put the second staff member of the Institute in charge of organizing and coordinating skills-based training opportunities available to all MSD employees through the City, the County and Cincinnati State; and that this position become a member of the HR Committee to act as liaison between training in HR and training in the Divisions